

City of Santa Fe, New Mexico
Notes to the Financial Statements
June 30, 2003

I. Summary of significant accounting policies

A. Reporting entity

The City of Santa Fe (the "City") is a municipal corporation governed by an elected mayor and an eight-member council. The accompanying financial statements present the government and its component units an entity for which the City is considered to be financially accountable. The City has no blended component units that are legally separate entities, but still in substance part of the government's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements in order to emphasize that it is a legally separate entity from the City (see "discretely presented component unit" below).

Discretely presented component unit. The Santa Fe Civic Housing Authority (a discretely presented component unit) is comprised of four programs: The Santa Fe Civic Housing Authority, Section 8 Housing, La Cieneguita, and the Housing Development Corporation. The Santa Fe Civic Housing Authority is responsible for providing public housing services within the city limits. The Section 8 Housing and La Cieneguita assistance programs are responsible for subsidizing low income housing. The Housing Development Corporation is responsible for providing 100 units of housing for elderly persons who qualify for assistance under Section 8 of the United States Housing Act of 1987. The City is financially accountable for the component unit since the Mayor, with approval of the city council, appoints a voting majority of the governing board and can impose their will on the entity. The component unit is presented as an enterprise type fund.

Complete financial statements for the component unit may be obtained at the Santa Fe Civic Housing Authority, 664 Alta Vista, Santa Fe, NM 87505.

B. Government-wide and fund financial statements

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 "State and Local Government Financial Reporting Model" which was effective for the City's fiscal year ending June 30, 2002. As a result, there has been a major change in how the City presents its financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly

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identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statement.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Property taxes are levied and collected by the Santa Fe County treasurer on behalf of the City. The taxes are levied in November and payable in two installments, November 10th and April 10th. The county remits to the city a percentage of the collections made during the month. Taxes are considered delinquent and subject to lien, penalty and interest, 30 days after the date on which they are due.

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The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ½% CIP GRT fund accounts for the City's portion of gross receipts taxes collected by the State of New Mexico per Ordinance No. 1981-45.

Debt service funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

The waste water management fund accounts for the operation of the City's treatment and sewage system.

The water management fund accounts for the activities of the City's water supply, transmission and distribution systems.

The Municipal Recreation Complex (MRC) fund, accounts for the operation of the City's golf course and adjoining recreation facilities.

The Genoveva Chavez Community Center (GCCC) fund accounts for the operating of the recreational center.

Additionally, the City reports the following fund types:

Internal service funds account for the City's Santa Fe Health Fund, Retiree Health Care Fund, Risk Management Fund and Workers' Compensation Fund which are services to City departments on a cost assessment basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the utilities functions and insurance functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions, and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal serve funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Changes in accounting principles and prior period adjustments

For fiscal years 01/02 and 02/03, the City implemented the following:

- GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. There was no material change or cumulative effect to the financial statements of the city for the year ended June 30, 2003.
- GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – For State and Local Governments*.
- GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*.
- GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis - For State and Local Governments: Omnibus*.
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.
- GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements split the City's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance at June 30, 2002 caused by the conversion to the

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accrual basis of accounting. In addition, it required the City to reclassify contributed capital into net assets and record depreciation expense for capital assets, except for land and art, that were previously recorded in the general fixed asset account group. The City has three years to fully record assets that previously were not required to be capitalized, which is planned to be accomplished within the three years. In addition, there were prior period adjustments related to the recording of establishment of a loan, adjustment of accounts receivable, and the elimination of proprietary activities in the internal service funds.

The impacts of these changes result in restatements of funds as follows:

	Governmental Funds	Enterprise Funds	Internal Service Funds
Net Assets - June 30, 2002	\$ 58,799,575	\$ 82,347,051	\$ 11,001,472
GASB 34 Adjustments:			
Capital Assets	26,122,937	6,974,577	-
Elimination of Proprietary Internal Service	-	659,552	(659,552)
Prior Period Adjustments:			
Establishment of Loan	200,000	-	-
Receivable (decrease) Increase	(51,638)	-	-
Net Assets - June 30, 2002 (as restated)	\$ 85,070,874	\$ 89,981,180	\$ 10,341,920

E. Assets, liabilities and net assets or equity

1. Deposits and investments

The City's cash, investments and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City pools substantially all cash in one bank account entitled "Common Account." City funds are invested in accordance with New Mexico State Statue 6-10-36, and with the City of Santa Fe Investment Policy, which states:

City funds shall be invested in accordance with New Mexico Statute 6-10-36 and shall be equitably distributed among all banks, savings and loan associations and credit unions having their main or manned branch offices within the municipal boundaries, as directed by Statue 6-10-36, Paragraph C. Funds that are declared excess due to the inability of local financial institutions to accept these deposits may be invested in U.S. Government Securities, or as otherwise provided by law. The City will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

This provides for the following authorized investments:

1. United States Treasury Securities (Bills, Notes and Bonds).

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2. Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings, and loan associations, and credit unions, pursuant to State Board of Finance Collateral Policies.
3. Mortgage backed securities secured by the full faith and credit of the United States Government.
4. Money market funds whose portfolios consist entirely of United States Government Securities.
5. Investments in the New Mexico State Treasurer external investment pool (Local Government Investment Pool).
 - (a) The investments are valued at fair value based on quoted market prices as of the evaluation date;
 - (b) The State Treasurer Local Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments;
 - (c) The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the accounting entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts fund were invested; and
 - (d) Participation in the local government investment pool is voluntary.
6. Repurchase agreements and forward purchase agreements with equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest.

Interest earnings on the pooled investments are distributed monthly to all participating funds based on the funds average daily cash balance. Investments for the City, as well as for its component unit, are stated at fair value.

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2. Receivables and payables

Activity between funds that are representative of lending/borrowing agreements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are also reported as “due to/from other fund.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles.

Property taxes are levied and collected by the Santa Fe County Treasurer on behalf of the City. Property taxes are levied in November and are payable in two installments. The first half is due on November 10 and becomes delinquent on December 11. The second half is due on April 10 and becomes delinquent on May 11, which is the lien date. Interest at the rate of 1% per month is incurred on installments following the delinquency date. By July 1 of each year, the County Treasurer prepares a property tax delinquency list of all property for which taxes have been delinquent for more than two years. The Taxation and Revenue Department receives the tax delinquency list and has the responsibility to take all action necessary to collect the taxes. The real property on which the taxes are assessed shall be offered for sale four years after the first date shown on the delinquency list. The County remits monthly to the City a percentage of the collections made during that period. The percentage is calculated by the County based upon the amounts collected, the mill levy, and the proportion of city taxpayers to the county as a whole.

3. Inventories and prepaid items

Inventories are valued at cost, which approximates market using the first-in, first-out (FIFO) method. Expenditures in governmental funds and expenses in proprietary funds are recorded as the inventory items are consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property, plant, furniture, art, software, equipment, vehicles, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. Capital assets, if purchased or constructed, are recorded at historical costs or estimated historical

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cost if original cost was not available. Donated capital assets are recorded at estimated fair value at the date of donation. City land acquired prior to 1987 was primarily by land grant or donation and is estimated to be 4,217 acres. Because original values are unknown, the parcels are valued at one dollar each.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major streets and traffic signals that had previously not been required to be capitalized have been added as capital assets this year.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest is capitalized during construction. Art is capitalized but not depreciated. The City determined Art will increase in value.

Property, plant and equipment of the primary government, as well as the component unit, are depreciated using the straight line method over the following estimated useful lives:

<u>Item</u>	<u>Years</u>	<u>Item</u>	<u>Years</u>
Buildings	50	Vehicles	8
Waster water Plant	20 - 25	Equipment and Machinery	4 - 10
Improvements	10	Sewerlines	25
Furniture and Fixtures	10	Software	10
Data Processing Equipment	3	Solid Waste Trucks	4
Streets	25	Sewer Rodder/Vactors	10
Traffic Signals	10		

5. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory hours and sick pay benefits. The City has a policy to pay out unpaid accumulated sick leave when an employee enters into an early retirement contract. The sick leave liability is calculated using the vesting method. Vacation pay and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financial sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$111,030,622 difference are as follows:

Bonds Payable	\$ 105,955,000
Plus: Bond premium (to be amortized as interest expense)	845,158
Arbitrage Rebate Payable	3,805
Capital Leases Payable	1,009,666
Sub - Total	<u>107,813,629</u>
Compensated Absences	3,216,993
Net Adjustment to reduce <i>fund balance – total governmental funds</i>	<u><u>\$ 111,030,622</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balance – total governmental funds* and *changes in net assets of government activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of the \$4,482,824 difference are as follows: